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INTELLIGENCE MEMORANDUM

The Situation in Iran

Key Judgments

The dismissal of Jamshid Amuzegar and the appointment of veteran politician Ja'afar Sharif-Emami as Prime Minister on 27 August is a gesture of conciliation by the Shah to the religious opposition that has been responsible for many acts of violence in the last eight months.

- These significant and unexpected concessions to the religious dissidents were made at considerable political cost to the Shah.
- The new prime minister is optimistic about his main task--to try to find a modus vivendi with the clergy.
- So far, however, the only clerical reaction has been to demand more concessions.
- The Shah seems to suspect that both the USSR and the United States have had something to do with the disturbances.
- Iran's deepseated economic problems which contribute to the unrest cannot be quickly solved.

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The new prime minister's job will not be easy. The sources of discontent--including the clash between traditionalism and social development--run far deeper than dissatisfaction with the previous cabinet. Moreover, religious fundamentalists do not perceive a distinction between the Shah and the government and view the Shah himself as the instrument of the changes in Iranian society to which they object.

Sixty-eight year old Sharif-Emami is from a family with a religious background and is said to be widely respected among the clergy. He has also been in the Shah's inner circle for many years. Sharif-Emami served as prime minister in 1960 and 1961, and was replaced when his government was blamed for deaths that occurred during demonstrations by striking teachers.

The main theme of Sharif-Emami's new administration was laid out in his initial public statement. He said he intended to follow "religious precepts and definite respect for the religious community," and promised a campaign against corruption. One of the major demands of the opposition clergy has been for action against those who are corrupt, especially members of the royal family. Policies that have always received top priority in statements of other prime ministers--economic and educational plans--are relegated to secondary status in Sharif-Emami's statement. This does not mean that Sharif-Emami intends to deemphasize such programs but rather that he views other issues as more immediately important.

Sharif-Emami's ultimate objective is to associate moderate, influential mullahs with the Shah's programs, including land reform and the emancipation of women, which Muslim fundamentalists have opposed as being in violation of the tenets of Islam. The prime minister told the press that he has already made some progress in developing a working relationship with the clergy. He described his contacts among clerics as "visibly satisfied" with concessions to Muslim fundamentalists.

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Among the measures the new prime minister has undertaken, certainly with the approval of the Shah, was the restoration of the Islamic calendar that had been abandoned two years ago, the elimination of a cabinet level post for women's affairs, the upgrading to cabinet level of a department dealing with religious affairs, the closing of all gambling casinos in Iran, and the retirement of several generals reputed to be Bahais, including the man who has been the Shah's personal physician for thirty years.* The replacement of the Shah's brother-in-law as minister of culture is also a gesture signaling a lower profile for the royal family. These moves, however, seem to have had little effect and widespread demonstrations have continued throughout the week since Sharif-Emami took office.

So far the only reaction by the clergy to Sharif-Emami's gestures has been a demand for more concessions, including:

- A guarantee of the clergy's "freedom of expression and function."
- Abolition of all laws that violate precepts of the Koran.
- The closing down of "immoral establishments."
- Freeing of political prisoners.
- Allowing exiled clergymen to return.
- Dismissal of all Bahais from the government.

*Bahaiism arose in the mid-19th century as a deviation from Shia Islam. It is considered by most Moslems as an anti-Islamic heresy and feelings run so high that as recently as 1955 mobs tore down the Bahai temple in Tehran and many Bahais were killed. Banks and other businesses reputedly owned by Bahais have been specially hit in the recent violence.

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- Insuring that all cabinet ministers are Shiite Moslems.
- Coordination of cultural policies with Islamic precepts.

The clergy are clearly having more of an impact on the government than has been the case in nearly two generations. While it is likely that some of the more moderate clerics will be satisfied with the Shah's recognition of their importance, the more virulent of his critics can be mollified by nothing short of his abdication and, no matter what the government concedes, more will be demanded.

The modern segment of the population, primarily the middle and upper classes, are beginning to worry that the ascendancy of the clergy might threaten much of the progress Iran has made in recent years. The modernizing nationalists, for all their demands that the Shah withdraw from his role as ruler, must be uncomfortable with the possibility that the clergy and not they, could end up dictating government policy. Still, they have refrained from criticizing the clergy's political demands, which they no doubt regard as reactionary.

The Shah perceives a foreign hand behind the disturbances--whether Soviet or American is not always clear. There is no evidence of Soviet involvement but money and incitement from Libya or the Palestinians cannot be discounted. Those who see an American hand in the disturbances assume that US interests and policy would be served by forcing the Shah to liberalize his regime and thus to provide a wider range of policymakers who would be easier to manipulate than the Shah.

The cabinet changes will do little to convince the Iranian consumer and the private investor that economic prospects will improve. Amuzegar's success in reducing the rate of inflation was limited primarily to the housing and construction sectors. Prices of almost everything else--particularly foodstuffs--have continued to spiral upward.

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The previous government's stated intent to expand private sector initiatives elicited no positive response from the business community; in fact, private investment declined last year as the business community perceived few clear signals as to the direction of future economic policy.

Growth in 1977 was sluggish as both oil and agricultural production declined. Industrial production and service grew more slowly than in previous years, in part because of fiscal production decline. In the early months of 1978, however, the public spending taps were opened wide in an attempt to stimulate the stagnating economy and pacify growing popular discontent. Solutions to Iran's deep-seated economic problems, including skilled labor shortages and dimming oil production prospects, will require more than a new management team.

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